

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 AGRE-00 /110 W

-----042513 030318Z /20

R 020606Z AUG 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 2648

UNCLAS SEOUL 6774

E.O. 11652: N/A

TAGS: ECON, ECIN

SUBJECT: DPM NAM DISCUSSES "NEW CHALLENGES TO THE KOREAN ECONOMY".

1. DPM NAM DUCK-WOO ADDRESSED THE SEOUL CORRESPONDENTS CLUB FRIDAY, JULY 28 ON THE THEME "NEW CHALLENGES TO THE KOREAN ECONOMY". NAM ASSERTED THAT THE ECONOMY NOW APPEARS TO BE APPROACHING A "DECISIVE TURNING POINT". NOTING THAT SINCE 1962 THE CORE OF KOREA'S DEVELOPMENT STRATEGY HAD BEEN EXPORT-LED GROWTH, NAM CONTINUED THAT AS A RESULT OF "EVER-TIGHTENING NEW PROTECTIONISM AGAINST DEVELOPING COUNTRIES' MANUFACTURED EXPORTS" A NEW ALTERNATIVE STRATEGY MAY BECOME NECESSARY.

2. ACCORDING TO NAM, KOREA'S COMPARATIVE ADVANTAGE IN LABOR-INTENSIVE LIGHT INDUSTRIAL PRODUCTS IS GRADUALLY FADING DUE TO HIGHER INCOME LEVELS AND WIDER EMPLOYMENT OPPORTUNITIES AS WELL AS FOREIGN PROTECTIONISM. PRIMARY GOAL NOW IS TO SHIFT TO SKILL AND TECHNOLOGY-INTENSIVE INDUSTRIES. IN ADDITION, INCOME GROWTH HAS INCREASED DOMESTIC DEMAND, AND IT NOW IS NO LONGER FEASIBLE TO RESTRAIN "INTERNAL CONSUMPTION INDISCRIMINATELY".

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3. AS A RESULT OF THESE CHANGES IN THE ECONOMIC ENVIRONMENT, NAM ENUMERATED SEVERAL POLICY CHANGES NOW UNDER IMPLEMENTATION OR CONSIDERATION. THESE INCLUDE 1) IMPORT LIBERALIZATION WHICH WILL RESULT IN A GROWTH OF IMPORTS Y 25 PERCENT OVER THIS YEAR; 2) EXPORT DIVERSIFICATION WITH EMPHASIS ON MACHINERY, ELECTRONICS, AND HEAVY INDUSTRIAL GOODS AND 3) MAN-POWER DEVELOPMENT BY EXPANDING HIGHER AND VOCATIONAL EDUCATION.

4. NAM NOTED INFLATION REMAINED KOREA'S PRINCIPAL DOMESTIC ECONOMIC PROBLEM CITING VARIOUS CAUSAL FACTORS AS EXCESS LIQUIDITY CREATED BY THE RAPID INCREASE IN FOREIGN ASSETS, GOVERNMENT DEFICIT FINANCING TO SUPPORT GRAIN PRICES, THE CONSTRUCTION BOOM, AND THE DROUGHT REDUCING SUPPLY OF AGRICULTURAL PRODUCTS. NAM STATED THAT THESE "SHORT-TERM" FACTORS DO NOT SHAKE THE STRONG FOUNDATIONS OF THE ECONOMY AND ANTI-INFLATIONARY POLICIES WILL SHOW CONCRETE RESULTS, "GRADUALLY BUT STEADFASTLY".

5. IN CONCLUSION NAM AFFIRMED THAT KOREA IS PREPARED TO MEET THE NEW CHALLENGES "NOT THROUGH ANY UNILATERAL ACTIONS, BUT THROUGH MULTILATEAL CONSULTATION AND COORDINATION WITH OUR TRADING PARTNERS". HE CALLED FOR A "COORDINATING MECHANISM" IN THE PACIFIC BASIN AND AFFIRMED THAT KOREA WILL CONTINUE ITS "MOMENTUM OF GROWTH".

6. ALTHOUGH THERE WAS LITTLE NEW IN NAM'S SPEECH REGARDING PRESENT DIRECTIONS OF KOREA'S ECONOMY OR ECONOMIC POLICIES, HIS COMMENTS AS TO THE NEED TO SATISFY INCREASED DOMESTIC CONSUMER DEMANDS WAS THE FIRST HIGH-LEVEL OFFICIAL STATEMENT WE HAVE NOTED ON THIS SUBJECT, AND IS IN STRIKING CONTRAST TO RECENT EMANATIONS FROM THE MINISTRY OF COMMERCE AND INDUSTRY THREATENING PRODUCERS OF ELECTRICAL APPLIANCES AND AUTOMOBILES FOR CONCENTRATING ON THE DOMESTIC MARKET

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RATHER THAN EXPORTS. DURING THE COURSE OF HIS TALK NAM, MORE IN SORROW THAN ANGER, NOTED THAT KOREA, AFTER ADOPTING THE ADVICE OF DEVELOPED COUNTRIES TO IMPROVE ITS ECONOMIC FUTURE BY ENCOURAGING LABOR-INTENSIVE LIGHT INDUSTRIAL EXPORTS, WAS NOW "BEING PUNISHED FOR THE VERY SUCCESS WE WERE ADVISED TO ACCOMPLISH."

GLEYSTEN

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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